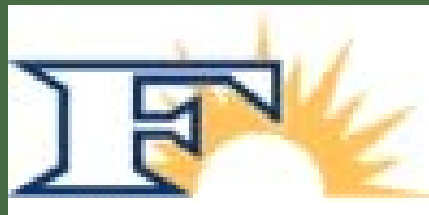




Internal Control Evaluation Progress Report for Frisco Independent School District



November 9, 2009

Topics

- Internal Control Evaluation – 2009 Activities
- Design Evaluation Conclusion – Summary of Observations
- Next Step for Phase II - Planned Processes 2010
- Future Steps - Phase III - Processes
- Internal Control Evaluation
 - Actual Hours to Date
- Discussion

Internal Control Evaluation – 2009 Activities

- During 2009, we continued our internal control evaluation project. Our procedures included the documentation and evaluation of internal controls over the Payroll cycle. The 7 processes covered by the evaluation were:

Payroll

- Time Approval
 - Payroll Process
 - Payroll Taxes
 - TRS – administration, eligibility, and deductions
 - Unemployment / Workers Compensation and FMLA Verification
 - Employee Deductions and Retirement Plan
 - Supplemental Pay Processing
- After assessing the design effectiveness documented in the walkthroughs, risk control matrices and SOD matrices, we evaluated whether there are design deficiencies or gaps in the current control environment.
 - We documented points for consideration to reduce the risk to an acceptable level to ensure that financial control objectives had been met.
 - During 2009, management of each process area has taken responsibility for their respective PFC's and has completed evaluating our recommendations.
 - We have reviewed with management their responses to our recommendations to ensure that risks identified in our design evaluation have been reduced to an acceptable risk and that financial reporting objectives have been met.

Internal Control Evaluation – 2009 Activities ---

Summary of Recommendations

- Out of 7 processes, we noted 27 recommendations and rated each as either high, moderate or low , based on our understanding of each observation and the associated potential internal.
- The results were as follows:
 - 4 High risk
 - 18 Moderate
 - 5 Low
- Of the four high rated risks
 - 2 were related to issues with system access by appropriate employees and within their job description.
 - 2 of the issues related to the reconciliation and review of payroll and payroll taxes.
- Management has made significant progress in implementing the 27 recommendations and has taken action to appropriately remediate the risks identified.

Design Evaluation Conclusion

Summary of Observations

Process	Number of Observations	SUMMARY OF OBSERVATIONS
Payroll Cycle		
Payroll & Payroll Taxes	15	Physical and logical access issues were identified. Combined access of PR staff to edit their own payroll profiles, run payroll, print checks, and upload positive pay/direct deposit reports. Personnel files/data and printed payroll checks kept unlocked. Pentamation application for payroll and other functions appears to be operating at capacity. Documentation to evidence/verify the review of significant payroll changes could not be obtained (including; pay rate changes, stipend payments, payroll tax reporting, new employee/terminated employee profile changes, and severance pay calculations).
Teacher Retirement System	3	Documentation to evidence/verify the review and approval of TRS reports could not be obtained. Process flow of getting TRS information out of Pentamation and onto TRS reports is manual in nature. Access information to the TRS website is shared between multiple users.
Employee Retirement Plan Contributions	3	Documentation to evidence/verify of the review of employee contribution calculations and contribution payments to the plan provider could not be obtained. Payroll deductions for retirement plan contributions are entered by the Benefits department, not payroll.
FMLA, Workers Compensation, & Disability	6	Physical and logical access issues were identified. Specifically who can access the HR shared drive where confidential employee documentation is maintained and who has physical access to employee leave documentation. Documentation to evidence/verify the review and approval of FMLA, disability, and workers compensation payment calculations could not be obtained. Documentation to evidence/verify the review of the reconciliation from employees paid workers compensation to normal payroll could not be obtained. Noted workflow issues between AESOP and Pentamation regarding notification of Payroll staff when employees go on leave or disability.

Next Steps for Phase II – Planned Processes 2010

- As part of Phase II, the Construction Projects process was planned for review in 2009 but has been delayed. We are working with Management to re-schedule the Construction Projects process.
- This process includes the following areas:

Construction Projects

- Request for proposal and awards
- Construction plan approval and contract
- Construction in progress insurance binders
- Construction warranties and bonds

Future Steps – Phase III - Processes ---

- With the completion of Phases I and II, 22 financial and operational processes remain to be documented.
- We are working with management to determine which processes should be reviewed within the next block of hours for 2010. We recommend that the following High and High-Moderate Risk areas be considered for completion as part of Phases III and IV.

High Risk

- Information Technology, General
Computer Controls
- Network and Application Security
- Human Resources Administration

High-Moderate Risk

- Financial Statement Close & Reporting
- General Revenues
- Athletic Department
- Risk Management
- Tax Office Invoicing
- Property (incl Fleet), Plant, & Maintenance

- The District should consider an update to the Risk Assessment completed in 2007 to ensure that current business environment and trends and risk are considered.

Internal Control Evaluation: Actual Hours to Date

	Project area or process	Status	Timing	Hours Approved	Actual Hours	Dollars Billed
Phase I						
1	Risk Assessment	Completed 2007	March - April		165.10	26,358.75
2	Cash Receipts	Completed 2007	May - July		106.90	16,406.85
3	Special Activities	Completed 2007	May - July		71.25	10,937.90
Total Hours Phase I				400	343.25	53,703.50
Phase II						
5	Purchase to Pay and Cash Disbursements	Completed 2008	March - April		279.10	40,251.25
6	Payroll	Completed 2009	April - October		182.80	27,420.00
Total Hours Phase II				400	461.90	67,671.25
Total Hours and Dollars to Date				800	805.15	121,374.75
Approved Hours Remaining					(5.15)	

Discussion



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AND
TIDWELL

L.L.P.